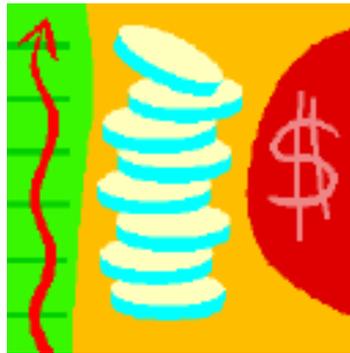




Credit Workshop



What I need to know about credit and lending products of financial institutions....

Financial Education Supported by:



Concept Checklist

What will I learn today?

- [] What is Credit?
- [] Advantages/
Disadvantages
- [] Cost/Types
- [] Loan Products
- [] Sources and Affordability
- [] 5 "Cs"
- [] Credit Report/ Credit
Score & Credit Bureaus
- [] Establishing a Credit
History
- [] Credit cards
- [] Debt

Curriculum compiled by the International
Institute with funding from Office of Refugee
Resettlement, Department of Health and
Human Services

What is Credit?

- Credit—someone is willing to loan you money—called principal—in exchange for your promise to pay it back, usually with interest.
- Credit is **NOT FREE** money!
- Credit is **NOT ADDITIONAL INCOME!**



What is Interest?

- Interest—the amount you pay to use someone else's money. The higher the interest rate, the greater the cost of using credit.

Non-Traditional Credit



Traditional Credit



Document your non-traditional credit use

- It is important
- First step toward traditional credit
- No one will do it for you

2

Advantages of Credit



Safety & Convenience



Use now... pay later

Good Credit History



Buy more for less money!

Better housing

Buy things you couldn't otherwise afford

Pay for emergencies



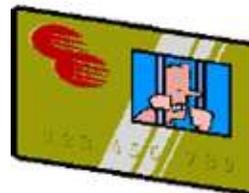
Disadvantages of Credit



Buying on credit can cost more than buying with cash



Credit limits your freedom of spending in the future

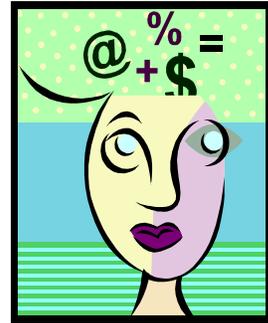


Cost of Credit

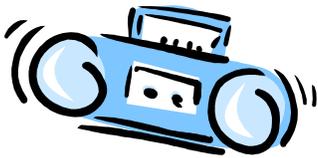


Credit can cost nothing or it can cost a lot! It all depends on the terms of the credit you are offered:

- Interest Rate + Fees + Finance Charges = APR
- Grace Period
- Down Payment
- Amount & Number of Payments



New Stereo Example



- \$500 New Stereo
- Purchased on a Credit Card
- Paying Only the Minimum Payment--\$10
- 20% Interest Rate

- *How Long Will It Take To Payoff??*
What Will Be The Total Cost??



Is the Answer??

- A) \$553 and 2 years
- B) \$621 and 3 years
- C) \$798 and 5 years
- D) \$1,084 and 9 years

What if you pay \$10 more every month?

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Types of Credit



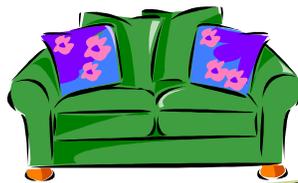
Revolving Credit



Service Credit



Housing Credit



Installment Credit

Types of Credit offered by Financial Institutions

Credit Cards

Line of Credit

Loans:

- Mortgages
- Home Improvement Loans
- Home Equity Loans
- Car Loans, Boat Loans, Computer... etc.
- Student Loans
- Payday Loans
- Rapid Refund (Tax Return Loans)
- Personal Loans
- Business Loans



Loan Products offered by Financial Institutions

Loan Type	Loan Size	Collateral	Time to Repay	Interest
Mortgage	V. Large	High	Very Long	Low
Home Equity Loan	Large	High	Long to Very Long	Low
Car Loan	Med to Large	Med High	Short to Med	Low
Student Loan to Students	Med to Large	Low	Med to Long	Low
Student Loan to Parents	Med to Large	Low	Med to Long	Low
Payday Loan	V. Small	None or Low	Very Short	High to Very High
Rapid Refund Loan	Small	None or Low	Very Short	High to Very High
Personal Loan	Med to Large	None or Low	Short to Med	High
Business Loan	Large	Med High	Flexible	Med High

Time to Repay Table

V. Long	Long	Medium	Short	V. Short
15-30 Years	6-14 Years	3-5 Years	1-2 Years	< 1 Year

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Who offers Credit?

- Yourself
- Family and Friends
- Credit Unions
- Banks
- (401) K Plans
- Life Insurance Companies
- Sales Finance Companies
- Landlords
- Retail Stores
- Consumer Finance Companies
- Pawnbrokers
- Loan Sharks



Your savings should be the first place to go to, but consider it as a creditor that will not wait on you!!



Plan to pay **YOURSELF** back.

How much Credit can you afford?

Monthly take home pay: \$_____ (A)

Monthly expenses for basic needs:

- Mortgage or rent \$_____
- Utilities \$_____
- Food \$_____
- Clothing \$_____
- Transportation \$_____
- Child Care \$_____
- Medical Expenses \$_____

Total basic needs \$_____ (B)

$\frac{A - B}{3} = \$ \text{_____} (C)$





How do you qualify for Credit?

The Five C's

- **Capacity** Can you repay the debt?
- **Character** Will you repay the debt?
- **Collateral** Is the creditor protected if you fail to repay the debt?
- **Capital** What is your financial net worth?
- **Conditions** Are interest rates rising?
It may be harder to qualify when they are.

Your Credit Score!

- Are you currently employed?
- How long have you been working for your current employer?
- Have you paid your bills on time?
- What is your outstanding credit?
- How long is your credit history?
- Have you applied for new credit recently?
- How many and what type of credit accounts do you have?



Questions Creditors Ask

- Full name
- Social Security number
- Address
- Length of stay at this address
- Previous addresses
- Occupation
- Your employer
- Length of time with current employer
- Age
- Where you bank
- Your monthly income and the sources of that income
- Whether your bank account is individual or joint

A creditor will obtain a copy of your credit report from a credit reporting agency

Direct contacts with creditors that do not report to credit reporting agencies can be another source of information.

Major Credit Reporting Agencies' Contact Information:

Equifax

P. O. Box 740241

Atlanta, GA 30374

Phone: (800) 685-1111

<http://www.equifax.com>

Experian

P. O. Box 2002

Allen, TX 75013

Phone: (888) 397-3742

<http://www.experian.com>

Trans Union

P. O. Box 1000

Chester, PA 19022

Phone: (800) 888-4213

<http://www.transunion.com>

What is in a Credit Report?

- **Personal Identification Information**
Full name, current and previous addresses, last 3 reported employers
- **Public Record Information**
Public information obtained from local, state and federal courts
- **Collection Agency Account Information**
Accounts your creditors turned over to a collection agency
- **Credit Account Information**
Company name, account number, type of account, date opened, credit limit, balance, past due amount with date reported
- **Companies that Requested Your Credit File**
Also called inquiries—The list of companies that requested your credit file in the last 24 months

What is **bad** on a credit report?

- Too many inquiries
- Large credit limits
- Large balances due

What is **very bad** on a credit report?

- Collections
- Bankruptcy
- Any information about a lawsuit or a judgment related to credit

You can now get a free credit report from each of the 3 credit bureaus once a year from <http://www.annualcreditreport.com>

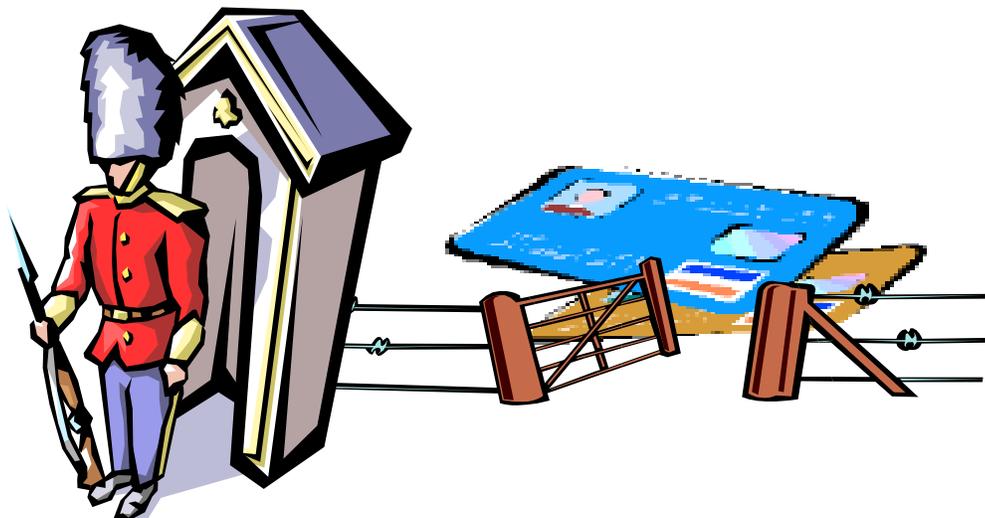
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Why is my Credit Score important?

- Credit scores are used to rate applicants on their creditworthiness and likelihood of repayment
- What makes up a credit score?
 - Payment history (35%)
 - Amounts owed (30%)
 - Length of credit history (15%)
 - Taking on more debt (10%)
 - Types of credit used (10%)

If you are looking for credit for the very first time...

- If you are not employed, find a job first.
- Open a bank account and show how well you can manage money and save.
- Have your telephone and other utilities billed in your name.
- Document your regular bill payments and always make them on time.
- Apply for a department store card or a layaway plan.
- Apply for a secured credit card with your bank.
- Keep your pay stubs and employment records



Top 10 Questions to ask before you sign



1. Do I really need this item right now or can I wait?
2. Can I qualify for credit?
3. What is the interest rate (APR)?
4. Are there additional fees?
5. How much is the monthly payment and when is it due?
6. Can I afford to pay the monthly payments?
7. What will happen if I don't make the payments on time?
8. What will be the extra cost of using credit?
9. What will I have to give up to pay for it? (opportunity cost)
10. All things considered, is using credit worth it?



Shopping for a Credit Card



Tips for using Credit Cards

- Pay off all your credit card bills on time to avoid paying interest.
- If you can't, pay off as much as you can afford as soon as possible.
- If you need cash, don't get it from your credit card unless you have no other choice.
- Avoid late-payment and over-limit penalties.
- Don't give your card numbers out over the phone, unless you made the call and know who you are talking to.
- Don't give out your card number on a cordless phone or cell phone.
- Return all unnecessary credit cards and keep the one that has lowest interest rate with no annual fee.
- Keep the receipts from your credit card charges and match them against the credit card bills each month.
- Don't pay for anything you didn't buy. If you see such a charge on your bill, pay off the correct charges and report the questionable one to your credit card company in writing.
- Report lost or stolen cards immediately to the issuer of the card.
- Never lend your card to anyone.
- If you have a pin number don't write it on your card.
- Keep all information about your credit cards in a safe place, separate from your credit cards.
- If you secured your credit card with a savings account, make sure that your payments are not deposited in your savings account.

Debt

- Rights and responsibilities -when you sign a loan application or apply for a credit card you are legally responsible for what is written in the credit agreement
- Getting out from under excessive amounts of debt -there is only one way, spend less than you earn
- Bankruptcy - Recent changes in the law have made it more difficult to file for bankruptcy. Bankruptcy stays on your credit report for 10 years.



Glossary

Annual Fee

A yearly fee charged by many card issuers in addition to the interest charged on purchases

Annual Percentage Rate (APR)

The total annual percentage amount it will cost a person to use credit

Bankruptcy

A legal process that allows someone deeply in debt to create a plan to get out of debt

Credit

An amount of money someone is willing to loan another person based on trust and the expectation that the money will be repaid with interest

Credit Report

A history of how a person has used credit

Debt

The entire amount of money a person owes to lenders

Finance Charge

The actual dollar cost of using credit, which is calculated by the lender

Grace Period

The time allowed, usually 25 days, in which new credit card purchases can be paid off, if there is not a previous balance, without being charged interest

Interest

Payment for the use of money

Loan Term

The length of time covered by a loan

